

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6782

BILL NUMBER: HB 1089

NOTE PREPARED: Feb 27, 2006

BILL AMENDED: Feb 23, 2006

SUBJECT: Annexation of Property Zoned Agricultural.

FIRST AUTHOR: Rep. Lutz

FIRST SPONSOR: Sen. Kenley

BILL STATUS: 2nd Reading - 2nd House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: (Amended) The bill allows a city or town to exempt annexed agricultural land from property tax liability until the land is rezoned under a different classification. (Under current law, only certain municipalities may do this.) The bill provides that if the annexation ordinance is adopted after June 30, 2006, the property tax liability is exempted for a period of not more than 10 years.

Effective Date: July 1, 2006.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) Under current law, all Lake County municipalities and Plainfield, Avon, Michigan City, Westfield, Lapel, and Pendleton may annex property classified as agricultural and exempt that property from the municipality's portion of property taxes until the property's classification is changed.

The conditions for annexation for the above-listed towns under this section of statute include:

- (1) The territory must be contiguous to the annexing municipality, and
- (2) The property owner must consent to the annexation.

This bill would allow all cities and towns to do the same.

Agricultural land has a relatively low value for property tax purposes. Currently, the base value of tillable farmland is \$880 an acre. Exemptions of this type of property from property taxes would not represent very much valuation. Therefore, the increase in the tax base would be slightly smaller because of the exemption. The exemption would prevent the shifting of municipal property taxes onto agricultural land; however, total local revenues would not be affected. A town could annex agricultural property in anticipation of a future project, which could ultimately have a positive fiscal impact in and surrounding the town.

However, if an annexation ordinance were adopted after June 30, 2006, the exemption from municipal property tax liability on the agricultural land under the ordinance would expire after ten years.

State Agencies Affected:

Local Agencies Affected: Cities and towns.

Information Sources:

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